

FISCAL NOTE

SB 3087 - HB 3421

March 24, 2006

SUMMARY OF BILL: Creates the "Tennessee Employer Health Care Security Act". Enacts a new tax upon employers in the state having more than 2,500 employees, under specified conditions, to be used as health security contributions (HSC). Such tax shall be paid as a privilege tax and levied at a rate computed by multiplying the wages paid each employee by 12%. Requires funds to be collected by the Commissioner of the Department of Revenue (DOR) and be deposited into the General Fund. Requires the DOR to negotiate for health insurance services, enter into contracts for health related services, to execute contracts, and administer new insurance program for specified individuals. Authorizes the Commissioner of the DOR to promulgate rules and regulations to effectuate the purposes of this act.

ESTIMATED FISCAL IMPACT:

Increase State Revenues – Exceeds \$418,000,000

**Increase State Expenditures – Exceeds \$1,202,000,000 Recurring
\$600,000 One-Time**

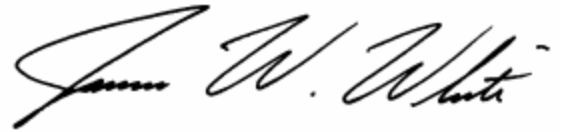
Assumptions:

- According to the Department of Labor and Workforce Development (LWD), the total number of non-governmental employees (NGE) is approximately 2,931,000.
- Government employees and non-profit organization employees for non-profit organizations have been excluded.
- According to LWD, approximately 44.7% of NGE (1,310,000) are employees working for companies with more than 1,000 employees.
- 50% of these employees (655,000) are estimated to work for companies having more than 2,500 employees.
- 15% of the 655,000 employees (98,250) are estimated to be employees that work for employers for fewer than 90 days, employees that work less than 30 hours per week, or employees that perform services under contract for periods of less than 5 months.
- 11% of the 655,000 employees (72,050) are employees covered by a group or non-group health benefit plan, financed without any participation by the employer, or who is enrolled in Medicare, or who is covered by a government operated medical assistance program.
- 484,700 individuals are estimated to meet the definition of employee as proposed in this bill ($655,000 - 98,250 - 72,050 = 484,700$).

- Tax base is derived from approximately 484,700 total employees.
- Each of the 484,700 employees earns an average salary of \$35,000 per year.
- Taxable portion is \$12,000 (\$35,000 average salary – the medical security wage base of \$23,000 = \$12,000).
- Tax base for FY06-07 is estimated to be \$5.816 billion (484,700 employees X \$12,000 = \$5,816,400,000).
- Privilege tax obligations, prior to any tax credits, are estimated to be \$697.9 million (\$5.816 billion base X 12% privilege tax = \$697,920,000).
- From their privilege tax obligations, employers can deduct its average expenses of providing health insurance benefits to employees.
- Tax per employee is estimated to be \$1,440 (\$12,000 taxable portion X 12% privilege tax = \$1,440).
- Employers would pay up to \$1,440 of the total cost of participation for one employee to have health insurance through a company-provided plan. This is their break-even point.
- The cost for health insurance for company-provided plans is estimated to be \$6,000 per enrollee per year.
- 20% of the 484,700 employees are estimated to have health care through TennCare (approximately 97,000 people).
- It is estimated that the 97,000 TennCare enrollees will not participate in company-provided plans because they would have to pay the majority of the annual premium, which would be approximately \$4,560 (\$6,000 premium - \$1,440 company share = \$4,560 employee share).
- Of the remaining 387,700 people, it is estimated that 50% would participate in company provided plans (193,850 people).
- Tax credits are estimated to be \$279.1 million (193,850 people X \$1,440 credit = \$279,144,000).
- The net increase to state revenues are estimated to exceed \$418.0 million (\$697.9 million obligations - \$279.1 tax credits = \$418.8 million).
- The increase to state expenditures for the DOR to administer new tax and to administer a new state health care plan is estimated to exceed \$2,000,000 per year.
- One-time state expenditures for new tax form development, computer programming, and software modifications are estimated to be \$600,000.
- 600,000 Tennesseans are estimated to have no health insurance.
- 200,000 individuals would be provided health insurance through the DOR.
- The cost to provide the individuals identified in this bill with the appropriate health insurance coverage is estimated to exceed \$1.2 billion (200,000 people X \$6,000 premium = \$1.2 billion).

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" and last name "White" clearly legible, and "W." in the middle.

James W. White, Executive Director